NISM-Series-XXI-A

Portfolio Management Services (PMS) Distributors

Practice Worksheets

4 worksheets covering all 12 syllabus chapters · 42 practice questions with a full answer key

Free, original study material from nismready.com — not an official NISM product.

Worksheet 1 — Investments, Securities Markets & Investing in Stocks (Ch. 1–3, 22 marks)

Concept recap

This worksheet covers the foundational chapters: what investment is, how securities markets are structured, and how equity is valued and selected.

Investment objectives include capital preservation (risk-averse/short-term), capital appreciation (long-term growth), current income (regular payouts), and tax saving. The required rate of return is shaped by the investor's risk appetite.

The primary market issues new securities; the secondary market trades existing ones. Equity investing involves both systematic risk (market-wide) and unsystematic risk (company-specific, reducible via diversification). Stocks are selected via fundamental research (intrinsic value estimation) or technical analysis (price/volume charts).

Key numbers & formulas

Item	Value / Formula
Primary market	New securities issued (IPO, FPO)
Secondary market	Existing securities trade between investors
Systematic risk	Market-wide; cannot be diversified away
Unsystematic risk	Company-specific; reduced via diversification
Technical analysis	Studies price charts and volume, not fundamentals

Practice questions

1. Saving is the difference between:

A. Risk and return
B. Money earned and money spent
C. Assets and liabilities
D. Equity and debt

2. Capital preservation as an objective is typically pursued by:

A. Highly risk-seeking investors
B. Highly risk-averse investors or those with short-term needs
C. Only institutional investors
D. Only derivative traders

3. Which is a 'real asset' rather than a 'financial asset'?

A. A bank fixed deposit
B. A mutual fund unit
C. Gold / real estate
D. A government bond

4. Who is India's primary securities markets regulator?

A. RBI
B. SEBI
C. IRDAI
D. PFRDA

5. An IPO occurs in the:

A. Secondary market
B. Primary market
C. Derivatives market only
D. Money market only

6. Unsystematic risk can be reduced through:

A. Market-wide hedging only
B. Diversification across many securities
C. Avoiding equity entirely
D. Increasing leverage

7. Estimating a stock's intrinsic value through financial analysis is:

A. Technical analysis
B. Equity research / fundamental analysis
C. Pure speculation
D. Currency trading

8. Technical analysis primarily studies:

A. Company financial statements
B. Price charts and trading volume
C. Only GDP data
D. Only board composition

9. If estimated intrinsic value is HIGHER than market price, the stock is generally considered:

A. Overvalued
B. Undervalued
C. Correctly priced
D. Impossible to evaluate

10. A limitation of pure technical analysis is that it:

A. Ignores underlying business fundamentals
B. Guarantees a profit
C. Requires no historical data
D. Cannot be used for any security

Answer key

1-B 2-B 3-C 4-B 5-B 6-B 7-B 8-B 9-B 10-A

Worksheet 2 — Fixed Income, Derivatives & Collective Investment Vehicles (Ch. 4–6, 15 marks)

Concept recap

Bond prices move inversely to interest rates. Macaulay Duration measures the time to recover an investment in present-value terms; Modified Duration estimates the percentage price change for a given rate change.

Derivatives (forwards, futures, options, swaps) serve hedging, speculation, or arbitrage purposes. Within PMS, derivatives are typically used within SEBI limits, often for hedging.

Collective investment vehicles include mutual funds (trusts), REITs (real estate), InvITs (infrastructure), and AIFs (Categories I/II/III, for sophisticated investors) — all alternatives a PMS distributor should be able to position PMS against.

Key numbers & formulas

Item	Value / Formula
Bond price vs. interest rates	Move inversely
Macaulay Duration	Time (years) to recover investment in PV terms
Modified Duration	Estimates % price change per rate change
Hedging	Reduces existing risk exposure
AIF Category III	Complex, leveraged, hedge-fund-like strategies

Practice questions

1. A bond's price and interest rates generally move:

A. In the same direction
B. In opposite directions
C. With no relationship
D. Only with equity prices

2. Macaulay Duration measures:

A. The bond's face value
B. Time to recover the investment in present-value terms
C. The credit rating only
D. Trading volume

3. A bond with HIGHER duration experiences, for the same rate change:

A. Smaller price movement
B. Larger price movement
C. No price movement
D. Movement unrelated to duration

4. Using a derivative to reduce existing risk is:

A. Speculation
B. Hedging
C. Arbitrage only
D. Insider trading

5. Within PMS, derivatives are typically used:

A. For unrestricted speculation
B. Within SEBI-permitted limits, often for hedging
C. Never
D. Only for currency conversion

6. Mutual funds in India are legally structured as:

A. Companies
B. Trusts
C. Partnerships
D. Sole proprietorships

7. REITs primarily let investors hold:

A. Direct physical real estate only
B. Income-generating real estate in small tradeable units
C. Only government bonds
D. Only derivatives

8. InvITs hold:

A. Residential apartments only
B. Infrastructure assets
C. Only gold reserves
D. Only foreign currency

9. Category III AIFs are broadly similar to:

A. Fixed deposits
B. Hedge funds, using leverage/complex strategies
C. Savings accounts
D. Government bonds only

10. Compared to a mutual fund, PMS holdings are:

A. Pooled anonymously
B. Held directly in the client's own name
C. Untraceable
D. Always less regulated

Answer key

1-B 2-B 3-B 4-B 5-B 6-B 7-B 8-B 9-B 10-B

Worksheet 3 — Role of Portfolio Managers, Operations & Process (Ch. 7–9, 38 marks)

Concept recap

A portfolio manager cannot accept less than Rs. 50 lakh per client (with exceptions for accredited investors and co-investment PMs). Discretionary managers act independently; non-discretionary managers need client approval per transaction. Managers must act in a fiduciary capacity and never derive personal benefit from client funds.

No lock-in is permitted, but a scaled exit load applies: 3% (year 1), 2% (year 2), 1% (year 3), nil after. Performance fees are governed by the High Water Mark — charged only on gains above the portfolio's prior peak.

The portfolio management process starts with understanding the client's objectives and asset allocation, informed by correlation across asset classes, and includes periodic rebalancing back to target weights.

Key numbers & formulas

Item	Value / Formula
Minimum PMS investment	Rs. 50 lakh per client
Exit load, year 1 / 2 / 3 / after	3% / 2% / 1% / Nil
Lock-in on PMS investment	Not permitted
High Water Mark	Highest value reached; fee only on new gains above it
Heaviest chapter in the exam	Portfolio Management Process — 15 marks

Practice questions

1. A portfolio manager cannot accept funds worth less than:

A. Rs. 5 lakh
B. Rs. 50 lakh
C. Rs. 5 crore
D. Rs. 50 crore

2. In a discretionary PMS, decisions are:

A. Approved by the client each time
B. Made and executed by the manager independently
C. Made solely by SEBI
D. Not permitted

3. In a non-discretionary PMS, the manager:

A. Acts independently
B. Manages per the client's own directions
C. Is prohibited from managing funds
D. Must be a mutual fund AMC

4. A portfolio manager must act in what capacity regarding client funds?

A. Agent only
B. Fiduciary capacity
C. Competitor
D. No specific duty

5. The maximum exit load in the FIRST year is:

A. 1%
B. 2%
C. 3%
D. 5%

6. After how many years can NO exit load be charged?

A. 1
B. 2
C. 3
D. 5

7. Can a portfolio manager impose a lock-in?

A. Yes, up to 3 years
B. No, not permitted; exit loads may apply instead
C. Yes, up to 5 years
D. Yes, with no limit

8. The High Water Mark is:

A. The lowest value ever reached
B. The highest value ever reached, base for future performance fees
C. The initial investment, forever
D. The benchmark index level

9. A performance fee under HWM is charged:

A. On any positive return each year
B. Only on gains above the prior HWM
C. Only in year 1
D. Never

10. The asset allocation decision primarily determines:

A. The manager's personal compensation
B. The equity/debt/other asset mix in the portfolio
C. The client's tax bracket
D. The custodian's fee

11. Combining low-correlation assets tends to:

A. Increase risk with no benefit
B. Reduce portfolio risk without sacrificing expected return
C. Guarantee a fixed return
D. Eliminate monitoring needs

12. Rebalancing is undertaken to:

A. Increase costs without benefit
B. Bring the mix back to target allocation after drift
C. Eliminate future reviews
D. Convert to cash permanently

Answer key

1-B 2-B 3-B 4-B 5-C 6-C 7-B 8-B 9-B 10-B 11-B 12-B

Worksheet 4 — Performance Measurement, Taxation & Regulation (Ch. 10–12, 25 marks)

Concept recap

Risk-adjusted performance uses the Sharpe Ratio (return per unit of total risk) and Treynor Ratio (return per unit of market risk/Beta). Performance attribution separates allocation effects from security-selection effects.

PMS capital gains are taxed asset-by-asset (equity, debt, derivatives) following ordinary rules, unlike pooled mutual funds. NRIs typically invest via the Portfolio Investment Scheme (PIS).

The SEBI (Portfolio Managers) Regulations, 2020 is the core regulation; the PMLA, Insider Trading Regulations, and Fraudulent/Unfair Trade Practices Regulations round out the compliance perimeter. Fiduciary duty and the Code of Conduct govern ethical practice.

Key numbers & formulas

Item	Value / Formula
Sharpe Ratio	(Return − Risk-free Return) ÷ Standard Deviation
Treynor Ratio	(Return − Risk-free Return) ÷ Beta
Core PMS regulation	SEBI (Portfolio Managers) Regulations, 2020
NRI PMS investment route	Portfolio Investment Scheme (PIS)
PMS tax treatment	Asset-by-asset, same as direct holding

Practice questions

1. The Sharpe Ratio divides excess return by:

A. Beta
B. Standard deviation
C. Variance of the benchmark
D. Portfolio turnover

2. The Treynor Ratio divides excess return by:

A. Standard deviation
B. Beta
C. Tracking error
D. Duration

3. Performance attribution analysis determines:

A. Allocation vs. selection contribution to return
B. The portfolio's launch date only
C. Total expense ratio only
D. The manager's personal holdings

4. Within PMS, capital gains are taxed:

A. Under one unified PMS rate
B. Following ordinary asset-wise capital gains rules
C. Only when the account closes
D. At a flat 0% always

5. NRIs investing in PMS typically route transactions through:

A. A regular savings account only
B. The Portfolio Investment Scheme (PIS)
C. A cryptocurrency exchange
D. No special route needed

6. The core regulation governing Portfolio Managers is:

A. SEBI (Portfolio Managers) Regulations, 2020
B. The Indian Contract Act alone
C. The Companies Act alone
D. The Banking Regulation Act

7. The Prevention of Money-Laundering Act, 2002 requires:

A. Ignoring fund sources
B. Due diligence and reporting suspicious transactions
C. Accepting cash with no documentation
D. Verifying identity once a decade

8. Concealing material risks for higher compensation is:

A. Sound judgment
B. Mis-selling under the Fraudulent/Unfair Trade Practices Regulations
C. Standard practice
D. Enhanced protection

9. A portfolio manager's fiduciary duty means:

A. Prioritising their own commission
B. Acting in the client's best interest above their own
C. Following instructions with no judgment
D. Avoiding disclosure of conflicts

10. SEBI's Investor Charter for PMS sets out:

A. Nothing of substance
B. Investor rights and grievance redress expectations
C. Only marketing rights
D. Only the fee structure

Answer key

1-B 2-B 3-A 4-B 5-B 6-A 7-B 8-B 9-B 10-B